

Message Text

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DEPARTMENT PASS TO TREASURY AND FRB

E.O. 11652: N/A

TAGS: EFIN, EEC

SUBJECT: FRB PROPOSALS ON BANKING REGULATIONS

REF: A) STATE 035382

B) EC BRUSSELS 1577 (NOTAL)

C) STATE A-8706, 11/20/74

1. BEGIN SUMMARY: THE EC COMMISSION DIRECTOR FOR FINANCIAL INSTITUTIONS HAS GIVEN US HIS COMMENTS ON THE FRB-PROPOSED "FOREIGN BANK ACT OF 1974." THE COMMISSION SUGGESTS CONSIDERATION OF SEVERAL POSSIBLE CHANGES TO THE BILL AND ASKS FOR CLARIFICATION OF SEVERAL PROVISIONS. THE COMMISSION SETS FORTH ITS VIEWS IN A COMPREHENSIVE LETTER TO THE MISSION WHICH IS BEING SENT IN SEPARATELY. END SUMMARY.

2. IN RESPONSE TO REFTEL A, MR. ROBIN HUTTON, DIRECTOR FOR FINANCIAL INSTITUTIONS OF THE EC COMMISSION, HAS STATED THE COMMISSION STAFF'S VIEWS IN A LETTER TO A MISSION OFFICER REGARDING THE FRB'S PROPOSALS

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ON REGULATION OF FOREIGN BANKS IN THE US. WE ARE SEND-

ING THIS LETTER IN BY AIRGRAM; THIS MESSAGE SUMMARIZES
THE LETTER'S MAIN POINTS.

3. PROVISIONS FOR RECIPROCAL TREATMENT: AN ESSENTIAL
ELEMENT OF THE COMMISSION'S PLANNED BANKING LEGISLATION
IS A RECIPROCAL APPROACH TO THIRD-COUNTRY BANKS. THE
EC PLANS TO STIPULATE THAT BANKS INCORPORATED IN THE
EC WHICH HAVE THEIR HEAD OFFICES WITHIN THE COMMUNITY,
EVEN IF THEY ARE SUBSIDIARIES OF THIRD-COUNTRY BANKS,
BE REGARDED AS COMMUNITY BANKS. BANK BRANCHES FROM
THIRD-COUNTRIES WOULD BE INTEGRATED WITH EQUAL RIGHTS
INTO THIS POSSIBLE FUTURE BANKING SYSTEM OF THE EC.
THE COMMISSION ALSO PLANS TO SEEK AUTHORITY TO NEGOTIATE,
ON BEHALF OF THE EC, INTERNATIONAL AGREEMENTS BASED ON
RECIPROCITY. ITS AIM IS TO PLACE EVERY BANK, WHEREVER
IT OPENS BRANCHES, UNDER THE RULE AND SURVEILLANCE OF
ITS COUNTRY OF ORIGIN. IN THE LONG RUN, HUTTON SAYS,
THE EC WOULD POSSIBLY LIKE TO NEGOTIATE RECIPROCAL
ARRANGEMENTS WITH THE US CONCERNING BRANCH OPERATIONS.
SUCH ARRANGEMENTS REQUIRE US-EC COOPERATION, WHICH
COULD BE PROMOTED BY INCLUDING PROVISION FOR INFORMATION
AGREEMENTS, LIKE THE ONE IN SECTION 24, IN OTHER
SECTIONS OF THE BILL. IT WOULD ALSO BE HELPFUL IF THE
BILL PROVIDED FOR THE POSSIBILITY OF RECIPROCAL TREAT-
MENT OF FOREIGN BANKS.

4. GRANDFATHER CLAUSE: THIS PROVISION COULD CREATE
PERMANENT DISTORTIONS IN THE COMPETITIVE CONDITIONS OF
FOREIGN BANKS IN THE US. IT IS FAIR TO PROTECT THE
INTERESTS OF BANKS THAT HAVE ALREADY BEEN ESTABLISHED
IN THE US. ON THE OTHER HAND, IN THE FUTURE, INSTITU-
TIONS WILL HAVE TO ENTER THE US MARKET AT LESS FAVORABLE
TERMS THAN THOSE INSTITUTIONS ABLE TO TAKE ADVANTAGE OF
THE GRANDFATHER CLAUSE.

5. LICENSING REQUIREMENTS: THE BILL PROVIDES THAT
NATIONAL BANK LICENSES, CERTIFICATES OF AUTHORITY FOR
FEDERAL BRANCH BANKS, FEDERAL BANKING LICENSES UNDER
SECTION 25 AND APPROVAL OF FOREIGN OWNERSHIP OF EDGE
ACT CORPORATIONS ARE TO BE GRANTED ONLY UNDER CERTAIN
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CONDITIONS. THE COMMISSION WOULD BE CONCERNED IF THE
APPLICATION OF THESE PROVISIONS WOULD CALL FOR A
SERIES OF EXAMINATIONS OF FOREIGN BANKS. THE COMMISSION
ASKS WHAT THE CRITERIA ARE THAT THE FRB PLANS TO APPLY
IN ITS DETERMINATION. SEVERAL OTHER LICENSING REQUIRE-
MENTS COULD ALSO AFFECT EUROPEAN APPLICANTS, ESPECIALLY
THOS REGARDING PARTNERSHIPS. DIFFICULTIES REGARDING
PARTNERSHIPS MIGHT BE RESOLVED BY AMENDMENTS TO THE

FEDERAL BANKRUPTCY ACT.

6. REQUEST FOR INFORMATION: THE COMMISSION RAISES QUESTIONS REGARDING THE DEFINITION OF A "FOREIGN BANK" UNDER SECTION 2.7(J) AND PROCEDURES FOR STATE AUTHORIZATION OF FOREIGN BANKS.

7. RESERVE REQUIREMENTS: FOREIGN BRANCHES ARE REQUIRED TO DEPOSIT CERTAIN TYPES OF SECURITIES UNDER SECTION 18, M AND N, WHICH COULD CREATE PROBLEMS. COULD THE GENERAL RESERVE REQUIREMENTS (SECTION 19) AND THE SUBSCRIPTION TO THE FEDERAL RESERVE BANK STOCK (SECTION 6.2) BE CONSIDERED SUFFICIENT GUARANTEES OF SAFETY DEPOSITS HELD BY THESE BRANCHES?

8. COMMENT: HUTTON'S COMMENTS REPRESENT THE POINT OF VIEW OF THE COMMISSION'S STAFF BUT DO NOT NECESSARILY REPRESENT THE VIEWS OF THE FULL COMMISSION. HUTTON TENTATIVELY PLANS TO VISIT WASHINGTON IN APRIL OR MAY, 1975 AT WHICH TIME HE WOULD LIKE TO DISCUSS WITH THE FRB AND OTHERS US AND EC BANKING REGULATIONS. END COMMENT.GREENWALD

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